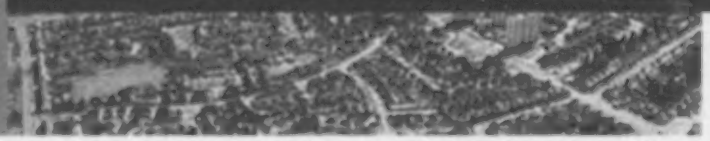
HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK

Saskatoon CMA



Canada Mortgage and Housing Corporation

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NEW HOME MARKET

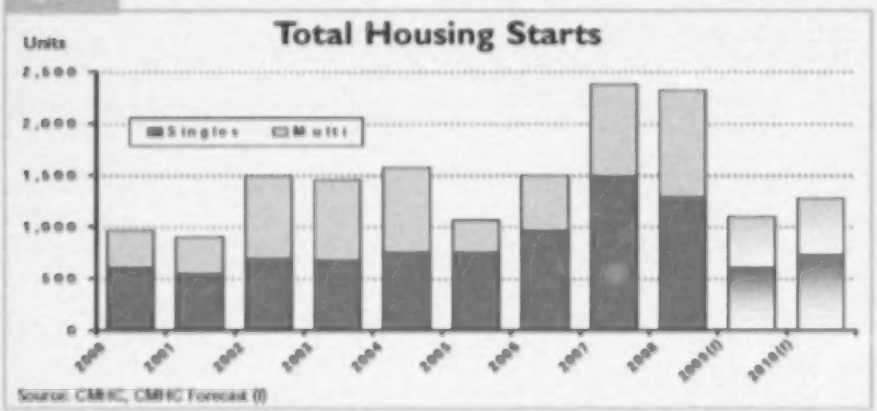
Single starts activity moderates in 2009 but growth returns in 2010

After the strongest two-year performance since the late 1970's, Saskatoon single-detached housing starts will decline to 600 units in 2009 and bounce back to 725 units in 2010. The 2009 singles forecast represents the lowest number of housing starts since 2001 when 542 single starts took place.

The moderation in activity compared to 2007 and 2008 is due to the effects of price escalation from previous years, heightened competition from resale housing, and a build up in the supply of new housing units. Reduced in-migration and lower employment gains in 2009 and 2010 will also play a role in this market adjustment.

Single-detached starts in the first three months of 2009 were below last year's levels. To the end of March,

Figure 1



Source: CMHC, CMHC Forecast (f)

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there were 77 foundations poured compared to 284 in 2008, a decline of nearly 73 per cent. Single starts have shown year-over-year declines in activity since June 2008.

In terms of total supply, there were more than 800 single-detached units both under construction and completed and unoccupied at the end of the first quarter. Supply has been in decline, on a year-over-year basis, since December 2008 and on a month-over-month basis since June of last year.

The bulk of single units in supply are those in various stages of construction. After peaking at close to 1,300 units in June 2008, the number of single units under construction has seen monthly declines. The combined effects of slower starts and increased absorptions have reduced the total supply on a month-over-month basis over the last nine months.

The number of single units that are completed and unoccupied now lies at close to 200 units, up from only 14 one year earlier. The number of completed and unoccupied single units is at a record high and builders will be restraining production until the excess inventories are absorbed.

Monthly single absorptions were achieving year-over-year gains starting in November 2008 but March 2009 brought slower absorptions compared to a very strong March 2008. Year-to-date, single absorptions now stand even with the first quarter of 2008.

At the present trended absorption rate of 110 to 115 units monthly, the supply of ownership (mainly single-detached) units at various stages of construction as well as those that are complete and unoccupied is sufficient to last seven to eight months. This is down from the 2008 first quarter figure of 11 to 12 months.

Starts in bedroom communities slower in 2009

Single starts in Saskatoon's bedroom communities fell 62 per cent in the first quarter compared to the previous year. So far this year, these communities have captured 33.8 per cent of total single starts. At this time in 2008, 24.3 per cent of starts were outside the city limits. Over the last five years, bedroom communities have seen an average of 38 per cent of single starts fall within their boundaries. The share of units within the city has fluctuated over the last few years due to the availability and price of developed land within the city limits versus the bedroom communities.

Average price to decline in 2009 but return to growth in 2010

We forecast the average price of a new single-detached home will be $352,000 in 2009, a four per cent decline from the 2008 annual figure. The average new house price will ease due to the historically high number of units that are completed and unoccupied and competition from the resale market. Builders advise that in some new subdivisions, their newly completed homes are competing with homes sold to buyers in the previous year. As a result, builders will be offering incentives and price reductions in order to liquidate their excess inventory in 2009. Provided inventories sufficiently decline, the average price will then see an uptick of two per cent in 2010.

At the end of the first quarter, the year-to-date average price of a new single-detached home was $377,825, up 20.5 per cent from one year earlier. The average price is already showing signs of easing. Year-over-year price growth peaked at 34.6 per cent in November 2008. In December 2008, gains began to slow and by the end of the first quarter, the year-over-year increase measured 20.5 per cent. While still elevated on a year-over-year basis, the average absorbed price in March was eight per cent lower than the peak reported in August of last year.

Saskatoon New House Price Index decelerates in 2009 and 2010

Statistics Canada's New House Price Index (NHPI) measures the increase in the price of a house where the detailed specifications pertaining to each house remain the same between two consecutive periods.

Given the decline in production, we forecast a 6.6 per cent decline in the NHPI in 2009. Next year will see a partial recovery of these losses with growth of three per cent.

Multi starts scale back in 2009 and 2010

In the face of heightened supply levels, slower demand, and elevated listings in the competing resale market, multiple starts will see a decline of 51.5 per cent in 2009 to 500 units, the lowest number of multiple starts since 2005. Multi starts will rise by 10 per cent in 2010 reaching 550 units by year-end. At the end of the first quarter, the supply of multiple units, especially apartment condominiums, was at historically high levels causing many developers to postpone new developments in 2009. We expect much of this supply to clear by the end of this year supporting our forecast for a modest increase in multiple starts in 2010.

Monthly multi starts have seen year-over-year declines since October 2008. At the end of the first quarter, multiple starts numbers were down 96 per cent, the weakest first quarter multi starts since 1991. The first quarter of 2009 saw two consecutive months without multiple starts activity, the longest period without multi starts since November 1995.

At the end of the first quarter of 2009, total multi supply was over 1,170 units. The total supply peaked at 1,464 in September 2008 but has been trending down since that time. This sliding supply trend is largely due to fewer starts rather than increased absorptions.

Units under construction trending down but supply remains high

Most of the multiple units in supply consist of those that are under construction. The under construction figure has been trending downwards since October 2008 after reaching a peak of 1,464 units in September. At the end of March, over 48 per cent of the units under construction were condominium apartments. Row units under construction numbered 237 units.

Complete and unoccupied multis were less than five per cent of multiple supply but these numbers have been mounting since July 2008. Most recently, our records show just over 50 units were complete and unoccupied. We expect the number of units in this position to increase in the next few months as projects started in 2007 and early 2008 move to completion.

Based on 2008 activity, the absorption rate for apartment condominiums is just over 20 suites monthly. This suggests that the supply of apartment condominiums calculated at the end of the first quarter was sufficient to last more than 40 months. The comparable figure for the more quickly absorbed row condominiums was about 12 months.

RESALE MARKET

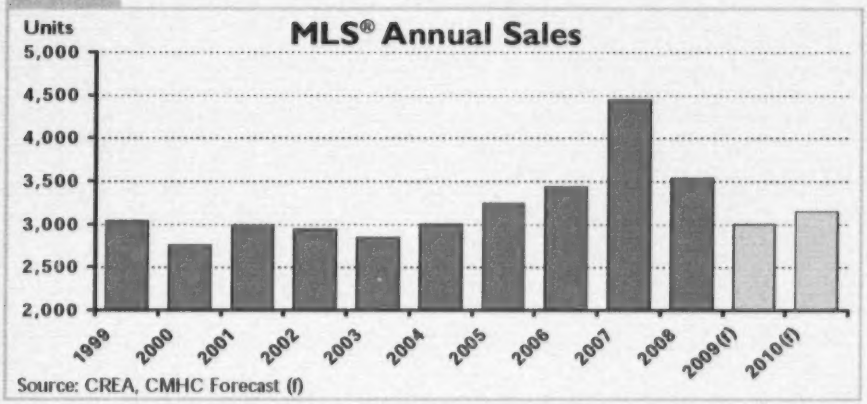
MLS® sales slower in 2009 but recover in 2010

Saskatoon resales will continue to slow in 2009, slipping 15.3 per cent to 3,000 sales. Sales were last at this level in 2004 when 2,999 resales took place. Price reductions should contribute to a rebound in 2010 with sales of 3,150 units, a five per cent increase over the 2009 figure. Slower in-migration and a cooler economy combined with elevated housing prices have dampened demand and restrained sales from the historically high levels seen in 2005 to 2008. MLS® sales peaked in 2007 with 4,446 resales recorded.

MLS® sales to the end of March totalled 707 units, a decline of 33 per cent from the same period one year ago. March seasonally adjusted sales were down 28 per cent compared to March 2008. There have been monthly declines in seasonally adjusted sales since November 2007.

Seasonally adjusted monthly sales are trending downward, but the severity of the decline has eased in recent months. In June 2008, the monthly trend was down close to five per cent compared to the previous month while seasonally adjusted sales were down by only one per cent from February to March 2009.

Figure 2



Source: CREA, CMHC Forecast (f)

New listings pace decelerates

By the end of the first quarter, year-to-date new listings were up 16 per cent from last year at that time. March seasonally adjusted new listings were down 0.8 per cent from February 2009. March marked the sixth month-over-month decline in seasonally adjusted new listings activity. This suggests the new listings trend has peaked.

A slower decline in the number of sales and lower new listings have not yet worked their way into the inventory of homes for sale on the MLS® service. In March, there were 2,399 active listings, more than double the 2008 March figure. Seasonally adjusted active listings increased by 4.8 per cent compared to the previous month and reached the highest level on record in March.

Due to a higher inventory of listings compared to sales, the sales-to-active listings ratio remained in buyers' market territory in March. The ratio has fallen by nearly 25 percentage points from 37.2 per cent in March 2008 to 11.8 per cent this March. Given this imbalance between supply and demand, sellers will be facing price reductions to ensure a timely sale.

Average resale price to decline 4.4 per cent in 2009 followed by a 1.8 per cent rise in 2010

Our forecast calls for average price to slip to $275,000 in 2009, a 4.4 per cent decline from the 2008 annual figure. Historically high active listings and buyer resistance to higher prices will result in the 2009 fall off in average price. There will be a modest increase of close to two per cent in 2010, bringing the average price to the $280,000 mark. The firmer market expected in 2010 will allow modest price gains.

Price pressures continued to ease in the first three months of 2009. Elevated supply levels combined with lower demand resulted in downward price pressure. On a year-to-date basis, the average price of a resale home in the Saskatoon CMA was $274,748 this March compared to $272,204 in March 2008. This represents an increase of less than one per cent.

On a month-to-month basis, prices have been declining since peaking at $310,386 in June of last year. In March, the average price fell to $266,720, five per cent lower than the previous month and one per cent less than the previous year.

In terms of sales by price range, year-to-date March 2009 sales in the $200,000 to $349,999 price range have seen their market share of total MLS® sales increase by 12.4 percentage points. Year-to-date sales in the price range of $350,000 and up have lost close to five per cent market share compared to the previous year.

RENTAL MARKET

Average vacancy rate inches up

The average vacancy rate for Saskatoon apartments will increase

very slightly to two per cent in October 2009 and rise again to three per cent in 2010. Rents have risen sharply in the last three years contributing to lower in-migration, and doubling up of households. Condominium investments are also providing some indirect competition to Saskatoon's rental property owners, especially among the highest rent ranges. On the other hand, increased ownership prices have led to some rental households postponing the purchase of a home, countering some of the impact of lower household formation, reduced in-migration, and competition among rented condominiums.

Rent increases ease in 2009 and 2010

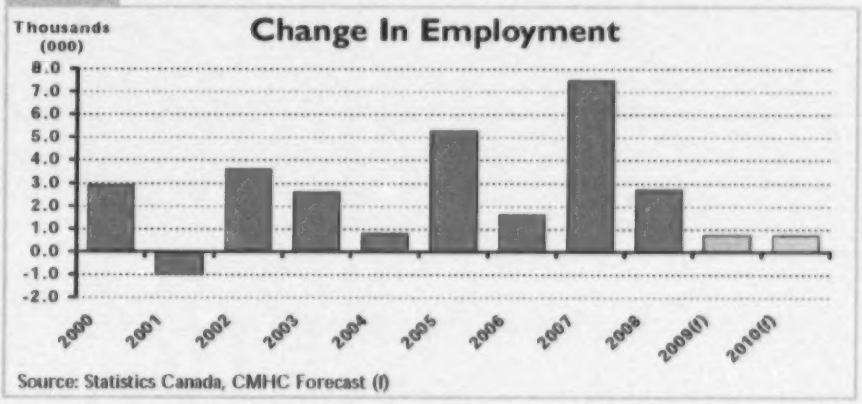
We expect the average rent will continue to increase in Saskatoon although at a slower pace than seen in the 2007 and 2008. Two-bedroom apartment rents will increase to $860 in the 2009 survey and increase again in 2010 to $870 monthly.

Both the City of Saskatoon and the Province of Saskatchewan have programs in place to encourage the building of market rental and affordable rental housing.

ECONOMIC OUTLOOK

Job creation to moderate over forecast period

Figure 3



Source: Statistics Canada, CMHC Forecast (f)

In 2007 and 2008, payrolls expanded at an impressive rate of 5.9 and 2.0 per cent, respectively. However, employment growth in Saskatoon will moderate during the forecast period as economic activity slows. In the next few years, CMHC anticipates a more modest employment expansion of 0.5 per cent annually.

Employment in the goods-producing sector is down on a year-over-year basis, especially in the manufacturing segment. The decline in commodity prices has reduced the demand for some manufacturing services, resulting in a number of layoffs. Job losses in the goods-producing sector, where salaries surpass the average for all industries, will temper the demand for home ownership. Construction activity will remain busy with the non-residential sector doing the heavy lifting. To the end of the first quarter, the non-residential sector had $56.6 million dollars in permit values, up 21 per cent on a year-over-year basis. Supporting our forecast for housing starts, the residential sector posted $51.5 million in permit values, down 26 per cent from the previous year. The contraction in housing starts will reduce the labour requirements for construction employment, though strength in the non-residential sector should mitigate job losses.

While the goods-producing sector is showing signs of slowing, the service sector continues to expand. All of the 3,800 jobs created from March 2008 to March 2009 came from the services-producing sector. Employment in educational, healthcare and social assistance services has increased on a year-over-year basis, as has the finance, insurance, and real estate sector. The flurry of new migrants in the last couple of years has created additional demand for these services. Employment in the retail sector is also up from the previous year. As retail jobs represent part-time positions with a lower rate of pay, these additions should help support the demand for rental accommodations.

Full-time job growth, which dominated the employment expansion in 2007 and 2008, will be relatively weak throughout the forecast period. Given the current economic environment and strength in the service sector, job creation in Saskatoon has shifted in favour of part-time positions. Of the 3,800 jobs created from March 2008 to March 2009, 3,300 jobs were in part-time positions where weekly earnings are not typically high enough to support homeownership. A rise in unemployment will also influence ownership demand. At the end of the first quarter, the unemployment rate increased to 5.1 per cent, up from 3.6 per cent in 2008.

Following heightened migration levels in the last few years, net migration in Saskatoon will moderate to 3,000 people in 2009 and 2010. Weaker employment prospects and a rising unemployment rate will contribute to the slowdown. Meanwhile, recent cost escalation for all forms of housing will reduce the magnetic draw for newcomers to the city. Despite the moderation, Saskatoon will still to be a favourable destination for many migrants, as the economy will outperform numerous other locations.

MORTGAGE RATES

Mortgage rates are expected to be relatively stable throughout 2009, remaining within 25-75 basis points of their current levels. Posted mortgage rates will increase very gradually during the course of 2010, reflecting a rise in government of Canada bond yields. For 2010, the one year posted mortgage rate will be in the 4.75-6.00 per cent range, while three and five year posted mortgage rates are forecast to be in the 5.00-6.75 per cent range.

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Forecast Summary Saskatoon CMA Spring 2009							
	2006	2007	2008	2009f	% chg	2010f	% chg
Resale Market							
MLS® Sales	3,430	4,446	3,540	3,000	-15.3	3,150	5.0
MLS® New Listings	4,637	5,816	8,141	7,800	-4.2	7,000	-10.3
MLS® Average Price ($)	160,577	232,754	287,803	275,000	-4.4	280,000	1.8
New Home Market							
Starts:							
Single-Detached	959	1,485	1,288	600	-53.4	725	20.8
Multiples	537	895	1,031	500	-51.5	550	10.0
Starts - Total	1,496	2,380	2,319	1,100	-52.6	1,275	15.9
Average Price ($):							
Single-Detached	239,365	272,802	366,526	352,000	-4.0	359,000	2.0
Median Price ($):							
Single-Detached	219,687	256,568	354,765	341,000	-3.9	346,500	1.6
New Housing Price Index (% chg.)	9.1	38.8	20.6	-6.6	-	3.0	-
Rental Market							
October Vacancy Rate (%)	3.2	0.6	1.9	2.0	-	3.0	-
Two-bedroom Average Rent (October) ($)	608	693	841	860	-	870	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.28	6.90	6.70	4.80	-	5.29	-
Mortgage Rate (5 year) (%)	6.66	7.07	7.06	5.64	-	5.94	-
Annual Employment Level	128,000	135,500	138,200	138,900	0.5	139,600	0.5
Employment Growth (%)	1.3	5.9	2.0	0.5	-	0.5	-
Unemployment rate (%)	4.4	4.0	4.0	5.0	-	5.3	-
Net Migration [1]	3,721	5,000	4,500	3,000	-	3,000	

MLS® is a registered trademark of the Canadian Real Estate Association (CREA)

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over
(1) 2007 migration data is estimated

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